

Audit Report

Kalamazoo Community
Mental Health Authority

October 1, 2001 – September 30, 2002



Office of Audit
Grand Rapids Regional Office
September 2006



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT – GRAND RAPIDS REGIONAL OFFICE
350 OTTAWA AVENUE, N.W.; GRAND RAPIDS, MI 49503-2343

JANET OLSZEWSKI
DIRECTOR

September 29, 2006

Ms. Judy Geary, Chairperson
Kalamazoo Community Mental Health Authority
3299 Gull Road – PO Box 63
Nazareth, MI 49074

CERTIFIED MAIL

and

Mr. Jeff Patton, Executive Director
Kalamazoo Community Mental Health Authority
3299 Gull Road – PO Box 63
Nazareth, MI 49074

and

Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building – 7th Floor
Lansing, MI 48913

Dear Ms. Geary, Mr. Patton, & Ms. Olszewski:

Enclosed is our report on the audit of Kalamazoo Community Mental Health Authority, an agency under contract with the Department of Community Health.

Sincerely,

Mr. Gerald C. Szczepaniuk, Regional Manager
Department of Community Health
Office of Audit - Grand Rapids Regional Office

Enclosure

cc: Dave McLaury
Nick Lyon
Patrick Barrie

Irene Kazieczko
John Duvendeck
Teresa Simon

Mark Kielhorn
Jim Hennessey
Richard Stafford

TABLE OF CONTENTS

	<u>Page</u>
Description of Agency	1
Funding Methodology.....	1
Purpose and Objectives.....	2
Scope and Methodology	3
 <u>Conclusions, Findings and Recommendations</u>	
<u>Contract and Best Practice Guidelines Compliance</u>	3
1. Commingling of Consumer Personal Funds	3
2. Undocumented Expenditures from Consumer Personal Funds	4
3. Lack of Lease Agreement for the Nazareth Administrative Building	5
<u>Financial Reporting</u>	6
4. FSR and General Ledger Reconciliation Differences.....	6
5. Incorrect Indirect Rate for OBRA/PASARR.....	8
6. Unallowable Respite Expenditures	8
<u>MDCH's Share of Costs and Balance Due MDCH</u>	11

Schedules

	<u>Page</u>
Schedule A - Financial Status Report	12
Schedule B - Explanation of Audit Adjustments	17
Schedule C - Contract Reconciliation and Cash Settlement Summary	19
Corrective Action Plans	22

DESCRIPTION OF AGENCY

The Kalamazoo Community Mental Health Services (KCMHS) was established in the 1960's and operated under the provisions of the Mental Health Code, Sections 330.1001 – 330.2106 of the Michigan Compiled Laws. KCMHS was an agency of the Kalamazoo County Government and was subject to oversight by the Michigan Department of Community Health (MDCH). The Kalamazoo Community Mental Health Authority (KCMHA) was established in 1997 and operates under the provisions of the Mental Health Code as amended by Public Act 290 of 1995. KCMHA is subject to oversight by MDCH. KCMHA became Kalamazoo County Mental Health and Substance Abuse Services (KCMHSAS) in 2005.

KCMHA provides outpatient, partial day, residential care, case management, prevention and Omnibus Budget Reconciliation Act (OBRA) services to consumers within Kalamazoo County.

The KCMHA administrative office is located in the city of Kalamazoo. The KCMHA board is comprised of 12 members who reside in Kalamazoo County and are appointed for three-year terms.

FUNDING METHODOLOGY

On October 1, 2001 KCMHA contracted with MDCH under a Managed Specialty Supports and Services Contract (MSSSC). For the twelve-month period ended September 30, 2002, KCMHA reported expenditures of \$49.8 million. MDCH provided KCMHA with both the State and Federal share of Medicaid funds as a capitated payment based on a Per Eligible Per Month (PEPM) methodology. The specific rates paid on the PEPM methodology are listed in an attachment to the contract. MDCH also distributed the non-Medicaid full-year State Mental Health General Funds (GF) based on a separate formula included as an attachment to the contract. Other funding received separately outside of the MSSSC included special and/or designated funds, fee for services funds, and MICHild capitated funds. The special and/or designated funds were provided under special contractual arrangements between KCMHA and MDCH. The funding methodologies for these arrangements are specified in each agreement.

MICHild is a non-Medicaid program designed to provide certain medical and mental health services for uninsured children of Michigan working families. MDCH also provided the funding for this program by capitated payments based on a Per Enrolled Child Per Month methodology for covered services.

PURPOSE AND OBJECTIVES

The purpose of this review was to determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and whether the agency properly reported revenues and expenditures in accordance with generally accepted accounting principles and contractual requirements; and to assess the agency's effectiveness and efficiency in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements. Following are the objectives:

1. To assess KCMHA's effectiveness and efficiency in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements.
2. To assess KCMHA's effectiveness and efficiency in reporting their financial activity to MDCH in accordance with the MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.
3. To determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and any balance due to or due from KCMHA.

SCOPE AND METHODOLOGY

We examined KCMHA's records and activities for the period October 1, 2001 through September 30, 2002. We completed an internal control questionnaire with the KCMHA chief financial officer. The purpose was to review internal controls relating to accounting for revenues and expenditures, procurement and other contracting procedures, reporting, claims management, and risk financing. Discussions were held throughout the audit with KCMHA's finance officer and other KCMHA management personnel. A review of KCMHA's policies and procedures was performed. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the financial status reports (FSRs) in compliance with the MSSSC reporting requirements and applicable accounting standards. We performed our audit procedures from September 2003 through January 2004.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE

Objective 1: To assess KCMHA's effectiveness and efficiency in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements.

Conclusion: KCMHA was generally effective and efficient in establishing and implementing policies and procedures to ensure compliance with contractual and other legal requirements. However, our assessment disclosed exceptions with the treatment of consumer personal funds (Findings 1 and 2), the lack of a lease agreement for the Nazareth building (Finding 3), and MSSSC financial reporting requirements (Findings 4 through 6).

Finding

1. Commingling of Consumer Personal Funds

KCMHA failed to ensure that contractors held separate bank accounts for each consumer's funds held in trust for those living in subcontracted specialized residential services programs.

We determined in auditing six Residential Opportunities, Inc. (ROI) homes that approximately \$30,432 belonging to several consumers was held in one checking account maintained by the corporate office. An on-site visit was made to ROI where it was determined that the consumers' funds from all of the homes, including the six reviewed, were kept in the same business account and interest was disbursed to the consumers when applicable. ROI would send the general ledger statements that they created to each residential home each month stating individual consumer balances. Immaterial variances were noted when comparing consumer personal funds and ROI's general ledger statements. These general ledger statements created by ROI were the only source documentation that could be used to reconcile to consumer personal funds.

Act No. 218 of the Public Acts of 1979 gives the Michigan Department of Consumer and Industry Services (MDCIS) authority to establish rules and regulations related to licensing of Adult Foster Care Small Group Homes (1 to 12 residents). MDCIS Adult Foster Care Group Homes Rules, Part I, Section R 400.14315 (Rule 315), paragraph 5 states:

All resident funds, which include bank accounts, shall be kept separate and apart from all funds and monies of the licensee. Interest and dividends earned on resident funds shall be credited back to the resident. Payments for care for the current month may be used by the licensee for operating expenses.

Recommendation

We recommend KCMHA implement policies and procedures to ensure that their contractor, ROI, maintains separate bank accounts for each consumer's funds held in trust to comply with the MDCIS Adult Foster Care Group Homes Rules.

Finding

2. Undocumented Expenditures from Consumer Personal Funds

KCMHA failed to adopt policies and procedures that would ensure all expenses related to consumer personal funds were adequately documented.

A comprehensive review of the specialized residential files at Living Ways, Lovell Street AFC revealed an inability to account for personal funds in the amount of \$200 for one consumer. The AFC cash log reported the \$200 but the cash was not present upon audit. The AFC manager stated that this consumer's personal fund money was spent shopping but was unable to provide any purchase documentation to verify that claim.

MDCIS Adult Foster Care Group Homes Rules, Part 1, Section R 400.14315 (Rule 315), paragraph 13 states:

A licensee shall provide a complete accounting, on an annual basis or upon request, of all resident funds and valuables which are held in trust and in bank accounts or which are paid to the home, the resident, or to his or her designated representative.

Recommendation

We recommend KCMHA adopt policies and procedures to ensure adherence to the pertinent rules outlined in the MDCIS Licensing Rules for Adult Foster Care Small Group Homes, R 400.14315, Handling of Resident Funds and Valuables.

Finding

3. Lack of Lease Agreement for the Nazareth Administrative Building

KCMHA did not establish a written lease agreement with Kalamazoo County for the rental of office space for the administrative departments.

KCMHA and Kalamazoo County have had an oral agreement for office space rental for many years. Kalamazoo County only charged KCMHA the actual costs associated with operating the building (lessor costs) rather than a fair market value per square foot. A written lease agreement is the only documentation that could legally establish each party's responsibilities. Therefore, to protect KCMHA, the office space arrangement should be documented in a written lease agreement that clearly establishes each party's responsibilities and payment obligations.

Recommendation

We recommend KCMHA enter into a written lease agreement with the County of Kalamazoo that clearly establishes each party's responsibilities and payment obligations.

FINANCIAL REPORTING

Objective 2: To assess KCMHA's effectiveness and efficiency in reporting their financial activity to MDCH in accordance with the MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

Conclusion: KCMHA was generally effective and efficient in reporting their financial activity to MDCH on the FYE 9/30/2002 Financial Status Report (FSR) in accordance with the MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards. However, we found exceptions in the following areas: differences between the FSR and general ledger based on omitted accounts (Finding 4), Pre-Admission Screening and Annual Resident Review (PASARR) (Finding 5), and respite services associated with consumer vacations (Finding 6).

Finding

4. FSR and General Ledger Reconciliation Differences

KCMHA did not accurately report all revenue and expenditure accounts on the FSR as required by the MSSSC.

The MSSSC, Attachment 8.9.1, Section 2.2 Revenue and Expenditure-Reconciliation, states, in pertinent part:

The submission is intended to build to a CMHSP gross program total inclusive of all the revenues and expenditures of the CMHSP including non-mental health programs.

The MSSSC, Attachment 8.9.1, Section 2.3.2 Row Instructions, states, in part:

Row A: Revenues Not Otherwise Reported

Enter all reimbursement earned from all programs and all revenues which are not reported in any other rows.

Row E: Local Funding

Row E-3 Other – All other local funding planned for expenditure regardless of the planned use of this revenue.

The MSSSC, Attachment 8.9.1, Section 2.4.3 Row Instructions, states, in part:

Row B: Expenditures Not Otherwise Reported

This is the total expenditure for services not reported in other rows.

KCMHA omitted revenue and expense accounts that were not directly associated with State funding from the FSR. This understated revenue by \$222,737 and expenses by \$73,416. Failure to record these revenues and expenditures is symptomatic of potential weaknesses in the management information systems controls. Proper accounting procedures would ensure that all adjustments or final journal entries would be made to the general ledger accounts in the closing process. This would ensure that all revenues and expenditures reported on the final FSR and used in the cash reconciliation and settlement process would be supported by the general ledger accounts.

Audit adjustments adding \$219,742 to Revenues Not Otherwise Reported, \$2,995 to Local Funding – All Other, and \$73,416 to Expenditures Not Otherwise Reported are shown on Schedules A and B.

Recommendation

We recommend KCMHA establish adequate accounting policies and procedures to ensure that all accounts are properly reported on the FSR, and the final revenues and expenses reported on the FSR are supported by and balance with the general ledger accounts.

Finding

5. Incorrect Indirect Rate for OBRA/PASARR

KCMHA erroneously used a prior year indirect rate to calculate indirect cost associated with the OBRA/PASARR grant.

Each year KCMHA hires an outside contractor to perform a study in which the indirect rate is established for calculations used on the OBRA/PASARR grant. A prior year indirect rate was used on the PASARR monthly summary billings submitted to the State. The PASARR Grant Agreement requires the Board to submit monthly billings to MDCH for services provided based on an actual cost basis as defined in the Revised Billing Procedures for OBRA Pre-Admission Screening, Initial and Annual Resident Review for Nursing Home Clients memorandum. Consequently, the OBRA/PASARR grant was overcharged \$1,038.

Audit adjustments removing \$1,038 of improperly reported expenditures are shown on Schedules A and B.

Recommendation

We recommend KCMHA adopt policies and procedures to ensure compliance with the OBRA/PASARR agreement, and proper reporting.

Finding

6. Unallowable Respite Expenditures

KCMHA paid for respite cruises and trips without establishing a written agreement or demanding supporting documentation to substantiate the needs of such services from their contractor, Residential Opportunities, Inc (ROI).

No documentation was provided by either KCMHA or ROI that would substantiate that this service was for allowable respite staffing for resident cruises and trips. The only documentation provided was the billing summary that stated, “down-payment for cruises.” This payment voucher gave no detail and said nothing about this being a respite staffing service. KCMHA contends that this was a needed respite service and that it was all part of the person-centered planning for these consumers. In reviewing the consumer files, no reference was made to this being a wish or goal of the consumer within the Individual Plan of Service. In addition, ROI was visited and they were unable to provide documentation that would substantiate that these were respite services.

The MSSSC, Section 4.11 states, in part:

The CMHSP shall maintain in a legible manner, via hard copy or electronic storage imaging, financial and clinical records necessary to fully disclose and document the extent of services provided to recipients. The records shall be retained for a period of seven (7) years from the date of service or termination of service for any reason. This requirement is also extended to all of the CMHSP contract agencies.

The MSSSC, Section 4.4 Services to be Delivered, states, in part:

1. All supports and services described in the MDCH Medical Services Policy for CMHSPs, or an acceptable alternative, shall be provided when included in an individual's person centered planning.

The MSSSC, Attachment 4.5.1.1 Person-Centered Planning Best Practice Guidelines, states, in part:

The individual shall be given ongoing opportunities to express his/her preferences and to make choices.

Audit adjustments removing \$2,952 from allowable expenditures are shown on Schedules A and B.

Recommendation

We recommend KCMHA adopt policies and procedures to ensure proper documentation is obtained from their contractors prior to payment being rendered and that all services are properly documented within the Individual Plan of Service.

MDCH'S SHARE OF COSTS AND BALANCE DUE MDCH

Objective 3: To determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and any balance due to or due from KCMHA.

Conclusion: MDCH's obligation for FYE 9/30/2002 (excluding the MICHild capitated funds, MDCH Earned Contracts, and Children's Waiver funds) after audit adjustments is \$47,359,501. KCMHA owes the MDCH a balance of \$3,940 after considering advances, the prior settlement, and the OBRA/PASARR adjustment as summarized below:

FYE 9/30/2002 Net Balance Due to MDCH (Schedule C)	\$33,957
FYE 9/30/2002 Prior Settlement (Schedule C)	(\$31,055)
OBRA/PASARR Incorrect Indirect Rate (Finding 5)	<u>\$1,038</u>
Total Balance Due to MDCH	<u>\$3,940</u>

The repayment of the OBRA/PASARR funds (\$1,038), the GF funds (\$449) in excess of the maximum allowable carryforward, and the Medicaid funds (\$2,453) in excess of the approved Medicaid Savings Reinvestment Plan for FY 01/02 must not appear in any future FSR as an expenditure. The retention (rather than repayment) of the additional Medicaid Savings of \$2,453 earned as a result of the audit adjustments is contingent on inclusion in an approved Medicaid Savings Plan as required by Section 8.8.2.2 of the MSSSC.

Kalamazoo Community Mental Health Authority
Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Revenues Not Otherwise Reported	\$ 60,900	\$ 219,742	\$ 280,642
B. Substance Abuse Total	\$ 924,665	\$ -	\$ 924,665
1 Medicaid Pass Through	\$ 924,665	\$ -	\$ 924,665
2 Other	\$ -	\$ -	\$ -
C. Earned Contracts (non DCH) Total	\$ 166,036	\$ -	\$ 166,036
1 CMH to CMH	\$ 96,423	\$ -	\$ 96,423
2 Other	\$ 69,613	\$ -	\$ 69,613
D. MI Child - Mental Health	\$ 22,512	\$ -	\$ 22,512
E. Local Funding Total	\$ 1,720,965	\$ 2,995	\$ 1,723,960
1 Special Fund Account (226(a))	\$ -	\$ -	\$ -
2 Title XX Replacement	\$ 38,027	\$ -	\$ 38,027
3 All Other	\$ 1,682,938	\$ 2,995	\$ 1,685,933
F. Reserve Balances - Planned for use	\$ -	\$ -	\$ -
1 Carryforward –Section 226(2)(b)(c)	\$ -	\$ -	\$ -
2 Internal Service Fund	\$ -	\$ -	\$ -
3 Other (205(4)(h))	\$ -	\$ -	\$ -
4 Stop/loss Insurance	\$ -	\$ -	\$ -
G. DCH Earned Contracts Total	\$ 574,896	\$ -	\$ 574,896
1 PASARR	\$ 137,952	\$ -	\$ 137,952
2 Block Grant for CMH Services	\$ 284,664	\$ -	\$ 284,664
3 DD Council Grants	\$ -	\$ -	\$ -
4 PATH/Homeless	\$ 76,705	\$ -	\$ 76,705
5 Prevention	\$ -	\$ -	\$ -
6 Aging	\$ -	\$ -	\$ -
7 HUD Shelter Plus Care	\$ -	\$ -	\$ -
8 CLCF-Part C	\$ 75,575	\$ -	\$ 75,575

Kalamazoo Community Mental Health Authority
Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
H. Gross Medicaid Total	\$ 34,811,915	\$ -	\$ 34,811,915
1 Medicaid - Specialty Managed Care	\$ 34,342,757	\$ -	\$ 34,342,757
2 Medicaid - Children's Waiver Total	\$ 469,158	\$ -	\$ 469,158
I. Reimbursements Total	\$ 107,772	\$ -	\$ 107,772
1 1st and 3 rd Party	\$ 107,772	\$ -	\$ 107,772
2 SSI	\$ -	\$ -	\$ -
J. State General Funds Total	\$ 13,019,646	\$ -	\$ 13,019,646
1 Formula Funding	\$ 8,395,354	\$ -	\$ 8,395,354
2 Categorical Funding	\$ 81,000	\$ -	\$ 81,000
3 State Services Base	\$ 4,543,292	\$ -	\$ 4,543,292
4 DCH Risk Authorization	\$ -	\$ -	\$ -
5 Residential D.C.W.	\$ -	\$ -	\$ -
K. Grand Total Revenues	\$ 51,409,307	\$ 222,737	\$ 51,632,044
L. Estimated MDCH Obligation (G+H+J)	\$ 48,406,457	\$ -	\$ 48,406,457

Kalamazoo Community Mental Health Authority
Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

<u>EXPENDITURES</u>	Reported Amount	Audit Adjustments	Adjusted Amount
A. Gross Total Expenditures	\$ 49,811,211	\$ 69,426	\$ 49,880,637
B. Expenditures Not Otherwise Reported	\$ 60,900	\$ 73,416	\$ 134,316
C. Substance Abuse Total	\$ 924,665	\$ -	\$ 924,665
1 Medicaid Pass Through	\$ 924,665	\$ -	\$ 924,665
2 Other	\$ -	\$ -	\$ -
D. Earned Contracts (Non MDCH) Total	\$ 166,036	\$ -	\$ 166,036
1 CMH to CMH	\$ 96,423	\$ -	\$ 96,423
2 Other Earned Contracts	\$ 69,613	\$ -	\$ 69,613
E. MI Child - Mental Health	\$ 22,512	\$ -	\$ 22,512
F. Local Total	\$ 1,112,620	\$ -	\$ 1,112,620
1 Local Cost for State Provided Services	\$ 324,850	\$ -	\$ 324,850
2 Other Not Used as Local Match	\$ 787,770	\$ -	\$ 787,770
G. Expenditures From Reserve Balances	\$ -	\$ -	\$ -
1 Carryforward - Sec 226(2)(b)(c)	\$ -	\$ -	\$ -
2 Internal Service Fund	\$ -	\$ -	\$ -
3 Other (205(4)(h))	\$ -	\$ -	\$ -
4 Stop/Loss Ins.	\$ -	\$ -	\$ -

Kalamazoo Community Mental Health Authority
Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

<u>EXPENDITURES</u>	<u>Reported Amount</u>	<u>Audit Adjustments</u>	<u>Adjusted Amount</u>
H. MDCH Earned Contracts Total	\$ 574,896	\$ (1,038)	\$ 573,858
1 PASARR	\$ 137,952	\$ (1,038)	\$ 136,914
2 Block Grant for CMH Services	\$ 284,664	\$ -	\$ 284,664
3 DD Council Grants	\$ -	\$ -	\$ -
4 PATH/Homeless	\$ 76,705	\$ -	\$ 76,705
5 Prevention	\$ -	\$ -	\$ -
6 Aging	\$ -	\$ -	\$ -
7 HUD Shelter Plus Care	\$ -	\$ -	\$ -
8 Other MDCH Earned Contracts	\$ 75,575	\$ -	\$ 75,575
I. Matchable Services (A-(B through H))	\$ 46,949,582	\$ (2,952)	\$ 46,946,630
J. Payments to MDCH for State Services	\$ 3,634,152	\$ -	\$ 3,634,152
K. Specialty Managed Care Service Total	\$ 33,366,080	\$ (2,453)	\$ 33,363,627
1 100% MDCH Matchable Services	\$ 33,366,080	\$ (2,453)	\$ 33,363,627
2 All SSI and Other Reimbursements	\$ -	\$ -	\$ -
3 Net MDCH Share for 100 % Services	\$ 33,366,080	\$ (2,453)	\$ 33,363,627
4 90/10 Matchable Services	\$ -	\$ -	\$ -
5 Medicaid Federal Share	\$ -	\$ -	\$ -
6 Other Reimbursements	\$ -	\$ -	\$ -
7 10% Local Match Funds	\$ -	\$ -	\$ -
8 Net State Share for 90/10 Services	\$ -	\$ -	\$ -
9 Total MDCH Share, Spec. Mgd Care	\$ 33,366,080	\$ (2,453)	\$ 33,363,627

Kalamazoo Community Mental Health Authority
Schedule A
Financial Status Report
October 1, 2001 through September 30, 2002

L. GF Categorical and Formula Services Total	\$ 9,480,192	\$ (499)	\$ 9,479,693
1 100% MDCH Matchable Services	\$ 3,288,973	\$ -	\$ 3,288,973
2 All SSI and Other Reimbursements	\$ -	\$ -	\$ -
3 Net GF and Formula for 100% Services	\$ 3,288,973	\$ -	\$ 3,288,973
4 90/10 Matchable Services	\$ 6,191,219	\$ (499)	\$ 6,190,720
5 Reimbursements	\$ 107,772	\$ -	\$ 107,772
6 10% Local Match Funds	\$ 608,345	\$ (50)	\$ 608,295
7 Net GF and Formula for 90/10 Services	\$ 5,475,102	\$ (449)	\$ 5,474,653
8 Total MDCH GF and Formula	\$ 8,764,075	\$ (449)	\$ 8,763,626
M. Children's Waiver – Total	\$ 469,158	\$ -	\$ 469,158
1 Medicaid - Federal Share	\$ 264,417	\$ -	\$ 264,417
2 Other Reimbursements	\$ -	\$ -	\$ -
3 Net State Share (M-M1-M2)	\$ 204,741	\$ -	\$ 204,741
4 Total MDCH Share Children's Waiver	\$ 469,158	\$ -	\$ 469,158
N. Unobligated Spending Authority Total	\$ -	\$ -	\$ -
1 DCH Risk Authorization	\$ -	\$ -	\$ -
2 All Other	\$ -	\$ -	\$ -
O. Total Local Match Funds	\$ 1,720,965	\$ (50)	\$ 1,720,915
P. Total MDCH Share of Expenditures	\$ 46,233,465	\$ (2,902)	\$ 46,230,563

Kalamazoo Community Mental Health Authority
Schedule B
Explanation of Audit Adjustments
October 1, 2001 to September 30, 2002

Revenues Not Otherwise Reported **\$219,742**

\$219,742 to increase the amounts reported on the financial status report revenue line A to the amounts supported by the general ledger. (See Finding 4)

Local Funding Total – All Other **\$2,995**

\$2,995 to increase the amounts reported on the financial status report revenue line E3 to the amounts supported by the general ledger. (See Finding 4)

Expenditures Not Otherwise Reported **\$73,416**

\$73,416 to increase the amounts reported on the financial status report to the amounts supported by the general ledger. (See Finding 4)

MDCH Earned Contracts - PASARR **(\$1,038)**

(\$1,038) to remove the amounts reported in excess of the proper indirect cost rate. (See Finding 5)

Matchable Services **(\$2,952)**

(\$2,952) to remove the amounts undocumented for expenditures related to staffing of respite cruises and field trips. (See Finding 6)

Kalamazoo Community Mental Health Authority
Schedule B
Explanation of Audit Adjustments
October 1, 2001 to September 30, 2002

Specialty Managed Care Services **(\$2,453)**

(\$2,453) to remove the amounts undocumented for expenditures related to staffing of respite cruises and field trips. (See Finding 6)

GF Categorical and Formula Services **(\$499)**

(\$499) to remove the amounts undocumented for expenditures related to staffing of respite cruises and field trips. (See Finding 6)

Kalamazoo Community Mental Health Authority
Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2001 through September 30, 2002

I. Maintenance of Effort (MOE)	Total Authorization	Medicaid Expenditures	General Fund Expenditures	Carryforward or Savings	Total MDCH Share
A. MOE – Expenditures					
1 Ethnic Population	\$ -	\$ -	\$ -	\$ -	\$ -
2 OBRA Active Treatment	\$ 201,261	\$ 51,810	\$ 149,451	\$ 0	\$ 201,261
3 OBRA Residential	\$ 782,964	\$ 460,409	\$ 322,555	\$ 0	\$ 782,964
4 Residential Direct Care Wage Increase #1 - 100% MOE	\$ -	\$ -	\$ -	\$ -	\$ -
5 Residential Direct Care Wage Increase #2 - 100% MOE	\$ 590,386	\$ 552,129	\$ 38,257	\$ -	\$ 590,386
6 Total	<u>\$ 1,574,611</u>	<u>\$ 1,064,348</u>	<u>\$ 510,263</u>	<u>\$ 0</u>	<u>\$ 1,574,611</u>
7 Maintenance of Effort - Lapse					<u>\$ -</u>
B. Reallocation of MOE Authorization	MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
1 Ethnic Population	\$ -	%	%	\$ -	\$ -
2 OBRA Active Treatment	\$ 201,261	25.74%	74.26%	\$ 51,810	\$ 149,451
3 OBRA Residential	\$ 782,964	58.80%	41.20%	\$ 460,409	\$ 322,555
4 Residential Direct Care Wage Increase #1 - 100% MOE	\$ -	%	%	\$ -	\$ -
5 Residential Direct Care Wage Increase #2 - 100% MOE	<u>\$ 590,386</u>	93.52%	6.48%	<u>\$ 552,129</u>	<u>\$ 38,257</u>
6 Total	<u>\$ 1,574,611</u>			<u>\$ 1,064,348</u>	<u>\$ 510,263</u>

Kalamazoo Community Mental Health Authority
Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2001 through September 30, 2002

II.	Specialized Managed Care (Includes State and Federal Share)	MDCH Revenue	MDCH Expense
A.	Total - Specialized Managed Care	\$ 34,342,757	\$ 33,363,627
B.	Maintenance of Effort – Summary	\$ 1,064,348	\$ 1,064,348
C.	Net Specialized Managed Care (A-B)	<u>\$ 33,278,409</u>	<u>\$ 32,299,279</u>
III.	State/General Fund Formula Funding		
A.	GF/Formula - State and Community Managed Programs	Authorization	MDCH Expense
	1 State Managed Services	\$ 4,543,292	\$ 3,634,152
	2 MDCH Risk Authorization - MDCH Approved for Use	\$ -	\$ -
	3 Community Managed Services	\$ 8,476,354	\$ 8,763,626
	4 Total State and Community Programs - GF/Formula Funding	\$ 13,019,646	\$ 12,397,778
B.	Maintenance of Effort – Summary	\$ 510,263	\$ 510,263
C.	Categorical, Special and Designated Funds		
	1 Respite Grant (Tobacco Tax)	\$ 81,000	\$ 81,000
	2 Grant Pickup – Prevention	\$ -	\$ -
	3 Total Categorical, Special and Designated Funds	<u>\$ 81,000</u>	<u>\$ 81,000</u>
D.	Subtotal-GF/Formula Community and State Managed Programs	<u>\$ 12,428,383</u>	<u>\$ 11,806,515</u>
IV.	Shared Risk Arrangement	Specialized Managed Care	Formula Funds
A.	Operating Budget – Exclude MOE and Categorical Funding	\$ 33,278,409	\$ 12,428,383
B.	MDCH Share - Exclude MOE and Categorical Funding	<u>\$ 32,299,279</u>	<u>\$ 11,806,515</u>
C.	Surplus (Deficit)	<u>\$ 979,130</u>	<u>\$ 621,868</u>
	Risk Band – 5% of Operating Budget (A*5%)	<u>\$ 1,663,920</u>	<u>\$ 621,419</u>

Kalamazoo Community Mental Health Authority
Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 2001 through September 30, 2002

		Approved Savings or		Grand
V. Cash Settlement	MDCH Share	Carryforward	Total	Total
A. MDCH Obligation				
1 Specialty Managed Care (Net of MOE)	\$32,299,279	\$ 976,677	\$33,275,956	
2 GF/Formula Funding (Net of Categorical and MOE)	\$11,806,515	\$ 621,419	\$12,427,934	
3 MOE Specialty Managed Care MDCH Obligation	\$ 1,064,348	\$ 0	\$ 1,064,348	
4 MOE GF/Formula Funding MDCH Obligation	\$ 510,263	\$ 0	\$ 510,263	
5 Categorical - MDCH Obligation	\$ 81,000	\$ -	\$ 81,000	
6 Total - MDCH Obligation				\$ 47,359,501
B. Advances – Prepayments				
1 Specialized Managed Care - Prepayments Through 9/30/2002		\$ 34,342,757		
2 Specialized Managed Care - FY 02 Prepayments after 9/30/2002		\$ -		
3 Subtotal - Specialized Managed Care			\$34,342,757	
4 GF/Formula Funding - (Include MDCH Risk Authorization)			\$ 8,429,139	
5 Purchase of Services			\$ 4,543,292	
6 Categorical Funding			\$ 81,000	
7 Total Prepayments				\$ 47,396,188
C. Balance Due MDCH				\$ 36,687
D. Balance Due to MDCH for Unpaid State Service Costs				
State Facility Costs			\$ 3,634,152	
Actual Payments to MDCH			\$ 3,636,882	
Balance Due MDCH				\$ (2,730)
E. Net Balance Due MDCH				\$ 33,957
Prior Settlement				\$ (31,055)
				\$ -
Balance Due to MDCH			** \$	\$ 2,902

** Retention of Medicaid Savings of additional \$2,453 as a result of audit adjustments contingent on inclusion in an approved Medicaid Savings Plan as required by Section 8.8.2.2 of the MSSSC.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Commingling of Personal Fund Accounts

KCMHA failed to ensure that contractors held separate bank accounts for each consumer's funds held in trust for those living in subcontracted specialized residential services programs.

Recommendation: Implement policies and procedures to ensure that the contractor, ROI, maintains separate bank accounts for each consumer's funds held in trust to comply with the MDCIS Adult Foster Care Group Homes Rules.

Comments: KCMHSAS Concur.

Corrective Action: KCMHSAS adopted policy 24.15 pertaining to Consumer Property and Funds. This is also part of the provider contracts in which KCMHSAS requires provider compliance with DCH licensing agreements for AFC's according to Rule 315. Compliance and monitoring pertaining to this requirement is handled by KCMHSAS's quality management staff and claims auditing staff during site visits and audits.

Anticipated

Completion Date: 2/10/04

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Undocumented Expenditures from Consumer Personal Funds

KCMHA failed to adopt policies and procedures that would ensure all expenses related to consumer personal funds were adequately documented.

Recommendation: Adopt policies and procedures to ensure adherence to the pertinent rules outlined in MDCIS Licensing Rules for Adult Foster Care Small Group Homes, R 400.14315, Handling of Resident Funds and Valuables.

Comments: KCMHSAS concurs.

Corrective Action: KCMHSAS adopted policy 24.15 pertaining to Consumer Property and Funds. This is also part of the provider contracts in which KCMHSAS requires provider compliance with DCH licensing agreements for AFC's according to Rule 315. Compliance and monitoring pertaining to this requirement is handled by KCMHSAS's quality management staff and claims auditing staff during site visits and audits.

Anticipated

Completion Date: 2/10/04

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 5

Finding: Lack of Lease Agreement for the Nazareth Administrative Building
KCMHA did not establish a written lease agreement with Kalamazoo County for the rental of office space for the administrative departments.

Recommendation: Enter into a written lease agreement with the County of Kalamazoo that clearly establishes each party's responsibilities and payment obligations.

Comments: KCMHSAS concurs.

Corrective Action: KCMHSAS entered into a three year lease with the Kalamazoo County for the period 1/1/04 – 12/31/06.

Anticipated

Completion Date: 4/6/04

MDCH Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 6

Finding: FSR and General Ledger Reconciliation Differences

KCMHA did not accurately report all revenue and expenditure accounts on the FSR as required by the MSSSC.

Recommendation: Establish adequate accounting policies and procedures to ensure that all accounts are properly reported on the FSR, and the final revenues and expenses reported on the FSR are supported by and balance with the general ledger accounts.

Comments: KCMHSAS concurs.

Corrective Action: According to KCMHSAS, all revenue and expenses are now being reported on financial status reports (FSR's) submitted to DCH and are reconciled to the general ledger.

Anticipated

Completion Date: Began with fiscal year reporting in 2002/2003.

MDCH Response: None

Corrective Action Plan

Finding Number: 5

Page Reference: 8

Finding: Incorrect Indirect Rate for OBRA/PASARR

KCMHA erroneously used a prior year indirect rate to calculate indirect cost associated with the OBRA/PASARR grant.

Recommendation: Adopt policies and procedures to ensure compliance with the OBRA/PASARR agreement, and proper reporting.

Comments: KCMHSAS concurs.

Corrective Action: According to KCMHSAS, an accounting error resulted in this finding. KCMHSAS has a cost allocation plan done annually to determine administrative overhead for KCMHSAS departments pursuant to A-87 requirements. The incorrect rate was used in several months of reporting. The cost allocation plan is shared with the financial analyst reporting OBRA expenses upon its completion so that the correct rate can be determined.

Anticipated

Completion Date: 1/1/04

MDCH Response: None

Corrective Action Plan

Finding Number: 6

Page Reference: 8

Finding: Unallowable Respite Expenditures

KCMHA paid for contracted respite services for cruises and trips without establishing a written agreement or demanding supporting documentation to substantiate the needs of such services from their contractor, Residential Opportunities, Inc (ROI).

Recommendation: Adopt policies and procedures to ensure proper documentation is obtained from their contractors prior to payment being rendered and that all services are properly documented within the Individual Plan of Service.

Comments: KCMHSAS concurs.

Corrective Action: KCMHSAS staff acknowledge that the available documentation to support these respite staff expenses was lacking. KCMHSAS continues to support and provide funding for Respite and Community Living Support Services to help consumers in the community. KCMHSAS has Utilization Management, Quality Assurance, and Auditing Staff hired to monitor compliance with services as requested and authorized pursuant to an individual plan of service within the claims and access systems.

Anticipated

Completion Date: 1/01/04

MDCH Response: None